

# Accounting Historians Journal

---

Volume 9  
Issue 2 Fall 1982

Article 2

---

1982

## Value-added taxation: The roots run deep into colonial and early America

Robert P. Crum

Follow this and additional works at: [https://egrove.olemiss.edu/aah\\_journal](https://egrove.olemiss.edu/aah_journal)

Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

### Recommended Citation

Crum, Robert P. (1982) "Value-added taxation: The roots run deep into colonial and early America," *Accounting Historians Journal*: Vol. 9 : Iss. 2 , Article 2.

Available at: [https://egrove.olemiss.edu/aah\\_journal/vol9/iss2/2](https://egrove.olemiss.edu/aah_journal/vol9/iss2/2)

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Accounting Historians Journal by an authorized editor of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

*The Accounting Historians Journal*  
Vol. 9, No. 2  
Fall 1982

*Robert P. Crum*  
UNIVERSITY OF KENTUCKY

## **VALUE-ADDED TAXATION: THE ROOTS RUN DEEP INTO COLONIAL AND EARLY AMERICA**

**Abstract:** This article indicates that even the most recent forms of taxation find their roots firmly planted in Colonial America. The author shows that the concepts: ad valorem, transaction basis, indirect levy, multi-step collection, and taxation of net product were present during this early period. Through the use of these concepts the historical justifications for the income and sales tax system are provided and indicate a trend toward combining these concepts into one tax. The value-added tax is such a tax. The author concludes that adoption of this tax would complete a trend in American taxation which "took root" in colonial times.

In the United States the tax structure consists of transaction, wealth, and income taxes (which are transaction based). This study will investigate transaction taxes which contain concepts underlying the value-added tax. Conceptually the value-added tax is a tax on the increase in value of a good or service resulting from production or distribution which is measured at each level of production or distribution by the difference between input and output transactions (net product). In its elementary form, it is a gross expenditure tax (measured by gross receipts of the output or selling company) allowing a credit for the taxes paid on inputs. Concepts underlying the tax are as follows: The tax is (1) value based (ad valorem), (2) transaction based, (3) an indirect tax levied upon expenditure, (4) multi-step, (5) taxation of net product (thus is non-pyramiding and noncascading; a net turnover tax). Several taxes (to be discussed in depth later), are evaluated for inclusion or exclusion of these concepts in Table 1. How each contributes to the development and integration of these concepts will be investigated from the historical approach. These developments can be classified as (1) development of graduated polls, licenses, and the property tax, (2) development of specific excises, (3) development of excises, income taxes, and licenses based on gross receipts, (4) development of general excises and sales taxes, and (5) value-added taxes. The income tax will not be investigated because it is a result of the development and integration of these concepts rather than their

**Table 1**  
**Concepts Underlying Various Taxes\***

Tax Concepts	Taxes						
	Poll Tax	Property Tax	Specific Excises	Gross Receipts Tax	Net Income Tax	Retail Sales Tax	Value Added Tax
Taxation of net product							
Multi-step							
Indirect tax levied on expenditure							
Transaction based							
Based on value							

\*Darkened areas indicate the presence of the concept for that tax

cause, and because little has evolved conceptually since several classics in this area have been written.<sup>1</sup>

### *Development of Graduated Polls, Licenses and Property Taxes*

A tax that is based on value can either be value in stock or value in trade. The first is a wealth tax, the other a transaction tax. The development of both are important to the development of the ad valorem concept in Colonial America. The development of the second is of major importance in the development of expenditure taxes.

Both types of taxes mentioned above have been cited as taxes based on "ability to pay" since earliest colonial times. In 1656 the "Articles of Confederation betwixt . . . Massachusets, . . . Pli-mouth, . . . Connecticut, and . . . New Haven, . . . [s/c] (par. IV), specifically states that:

. . . the charge of all just Wars, whether offensive, or defensive, upon what part or Member of this Confederation soever they fall, shall both in men, provisions, and all other disbursements, be born by all the parts of this Confederation, in different proportions, according to their different abilities, . . . according to the different numbers, . . . found in each jurisdiction, . . . by the poll: [however] Each jurisdiction, . . . being left to their own just course, and custome of rating themselves, and people, according to their different estates, with due respect to their qualities and exemptions among themselves, . . . .<sup>2</sup>

This provision basically allocated the cost of war proportional to males over sixteen years of age, but allowed each jurisdiction to raise the revenue however they saw fit, taking into consideration individual abilities. This concept of ability to pay endured for direct taxes until the sixteenth amendment. Ability to pay became an underlying theme of tax development; however, what constituted "ability" resulted in debate among those using the poll, property and transaction as the measure. These concepts of ability were not new to the American Colonies. Because of their ancestral and subsidiary link to the mother country, the colonies formed their taxation along British lines. In fact many colonial taxes were direct results of acts of the British Parliament. In order to put colonial laws into perspective, a quick review of British colonial laws follows.

There was constant friction between the landed and mercantile classes in England during the sixteenth and seventeenth centuries.

The friction was manifest through debate over whether customs duties, or land taxes should be levied to finance government. Since Parliament was controlled by landowners, it is not surprising that trade bore the cost of government. England's reason for planting the colonies was to promote trade with herself. Accordingly, her reason (initially) for taxation in the colonies was control of trade, not revenue generation.<sup>3</sup> Since Parliament was predisposed toward mercantile taxation and such taxation facilitated regulation of trade, it is not surprising that England's colonial tax policy was primarily composed of excise taxation in the form of import and export duties. The first regulation acts, The Navigation Acts of 1651 and 1660, established English ships as the only ones allowed to trade in the English colonial system.<sup>4</sup> In 1663 the "Staple Act" required most importation and exportation to the colonies from a foreign country to pass through England where a duty was levied.<sup>5</sup> The "Old Subsidy" Act of 1660 attempted to impose an ad valorem duty, through specific import duties, to protect English producers of those goods.<sup>6</sup> (Certain products not grown in England, such as cotton, could be shipped duty free.) Following the Seven Years' War (French and Indian War in the colonies) Parliament decided to pass internal taxes in the colonies with the specific intention of raising revenue. These were the Sugar Act of 1763 and the Stamp Act of 1765, which contributed to the declaration of independence by the colonies.<sup>7</sup> Another tax in the colonies was the quit-rent payable to the feudal landlord (the king).

In general, the colonies became polarized between taxation of land and trade along the same lines as the mainland. In New England, which was primarily mercantile, the poll and quit-rents grew into faculty and property taxes, and later corporate taxation. In the South, which consisted primarily of aristocratic landowners, property taxes were insignificant. This region opted for indirect taxes on imports and exports and widespread licensing. The middle colonies relied mainly on excise taxes. This is not a surprising trend since the most "equitable" tax is the one someone else pays.

### *Quit-Rents*

The quit-rent system has its roots in feudal times when each tenant was responsible for surrendering a certain proportion of the produce of the land he worked to the landlord. Conceptually, it was a rent or tax on the value of the land in use. Because of collection and storage problems, and after the introduction of standards

and medium of exchange, these obligations became commutable in currency at a set levy per acre of land.

In the colonies, quit-rents were not revenue measures; they were tribute in recognition that colonial titles to land were subordinate to the king's. The early charters did not contain quit-rent provisions, but all patents granted after 1625 provided for a uniform annual rent of one shilling per fifty acres.<sup>8</sup> Quit-rents are of interest in two respects: first, they are the first use value surrogates since they were levied "per acre"; and second, such a tax called for a medium of exchange. Until 1723 "country pay" was legal tender in Delaware, including Indian strings of beads called "wampum."<sup>9</sup> By 1631 Massachusetts had made corn legal tender and did not discontinue "country pay" until 1694.<sup>10</sup> Many of the colonies used tobacco as legal tender. It is especially interesting to note that during the Civil War the Confederate States levied a quit-rent type of tax requiring every farmer and planter (after an allowance for his own use) to deliver to the government one-tenth of all his crops in kind.<sup>11</sup>

Quit-rents were important not only as value surrogates in themselves, but also, because they were levied coincident with other (excise) value surrogates and developed into property taxes.

### *Tonnage Duties*

As early as 1631 Virginia imposed a tax each time a ship entered her ports, whether loaded or not, based upon the weight of the vessel.<sup>12</sup> Rhode Island, Providence,<sup>13</sup> Maryland, and Delaware had similar tonnage duties (Delaware's included use of the Delaware River).<sup>14</sup> These taxes resulted in intercolony squabbling<sup>15</sup> and were prohibited in the Constitution without the consent of Congress.<sup>16</sup> In many cases, the tonnage duties were payable in gun powder and shot; they had little economic significance.<sup>17</sup> This tax was significant because tonnage was a value surrogate and also a crude surrogate for commercial transactions since it was levied on each port entry and was based on tonnage, which is a rather crude approximation of trade value.

### *Poll and Property Taxes*

The first general tax law in the colonies was the 1619 poll tax levied in Virginia. The levy amounted to one pound of tobacco per poll<sup>18</sup> (generally defined as a male sixteen years or older). Other colonies developed poll taxes. Its importance is in the fact that poll taxes lead to graduation according to wealth. As an example,

Virginia's tax was converted into a combined poll/quit-rent type property tax in 1645 by statutory levies:

One hundred acres of land at	04 lbs. tobacco
One cow 3 years old at	04
Horses, mares, geldings at	32 a peece
A breeding sheep at	04
A breeding goate at	02
A tithable person at	20 <sup>19</sup>

Another tax based upon the poll was the faculty tax of 1634 in Massachusetts Bay. It provided for the assessment of each man "according to his estate and with consideration of all other his abilities whatsoever," and in 1635 was changed to "all men shall be rated for their whole abilities, wheresoever it lies." By 1643 the law read that the assessment was specifically, "according to their estates or faculties, that is, according to good lands improoved faculties and psonall abilities."<sup>20</sup> This provision not only added the concept of property to the poll tax but also different earnings potentials since "artificers and handicraftsmen . . . by advantage of their arts and trades are more enabled to help bear the public charges than the common laborers and workmen, . . ."<sup>21</sup> The significance of faculty (earning power) on the concepts under investigation becomes apparent if one traces that concept through graduated licenses to the widespread taxation of companies, in the later 19th century, by variable license fees based upon gross receipts and later upon income.

Connecticut (which copied the Massachusetts legislation) stated in 1715 that, "all such persons who by their acts and trades are advantaged shall be rated in the list . . . proportionate to their gains and returns," and added in 1725 that "for the future every one of the allowed attorneys at law shall be set in the annual list for their faculty, i.e., those that be the least practitioners fifty pounds, and the others in proportion. . . ."<sup>22</sup> This provision is particularly interesting since it is based on the value of the practice; that value being measured by its transaction base and is levied upon the producer of income (the attorney), but unfortunately is levied in regards to gross product rather than net product. This tax is a direct forerunner of gross receipts license taxes discussed later.

By 1771 the faculty tax had evolved into a composite tax which stated:

All traders or shopkeepers in this Colony shall be rated in the list after the rate of ten per cent on the prime cost of

all goods, wares, and merchandizes which they purchase for sale by retail (except the produce and manufactures of this Colony). And all traders by wholesale, tradesmen, artificers, tavern-keepers, and others by law rateable on account of their faculty or business, shall be rated in the list to the amount of their annual gains, incomes or clear profits . . . according to the best estimate . . . by the listers, . . . .<sup>23</sup>

Did this tax share the concepts underlying the value-added tax? Roughly, but because of its disjointed nature, it taxed less than the net product and was based on estimates rather than calculations. The first of the taxes mentioned was a tax based on value as measured by cost, was transaction based, and was levied upon the merchant rather than the consumer. However, since it was a single-stage wholesale tax it failed to tax the net product from wholesale to retail. Basically, it was a wholesale sales tax (but domestic goods were excluded). Ignoring the fact that gains, incomes, or clear profits were estimated rather than calculated from revenues and expenses, the second part of the tax was value based, based on transactions, levied on the generators of income, and was a multi-step taxation of net product, except for the retail level, since each in a line of production and distributions would pay a tax on his increment of value (revenue) over cost. So the second portion came very close to the concepts underlying both value-added taxes and income taxes. However, note that when both provisions are considered jointly at the wholesale level for nondomestic goods, the same goods are taxed to the retailer and wholesaler on the whole-sale price. This makes the tax a turnover tax which was a forerunner of the value-added tax introduced in Europe in the late 1960s. So the 1771 Connecticut tax was not a valued-added tax but the concepts, in a somewhat crude fashion, were present.

As can be seen from the Virginia example earlier (which was the standard rather than the exception), the poll and quit-rent type taxes quickly evolved into property taxes with statutory rates for each type of property. Along with the use of the measurement of "faculty," these rates were surrogate substitutes for actual property values. By as early as 1656 the Confederation of Massachusetts, Plymouth, Connecticut and New Haven used direct assessment of house property values in conjunction with the listing of statutory valued property:

. . . make a full and just list . . . of all personall and reall estates, . . . . Which List, and particular account, of males



and estates in reference to Rates, . . . be presented yearly. . . . All which persons and Estates, are to be assessed and rated, by such as are thereunto appointed, for one single rate as followeth, viz. Every male person above sixteen years of age . . . at twenty pence by the head, and all estates both reall and personall, at one penny for every twenty shillings. And that Houses (wherein there is much difference) may be more equally rated, according to their worth, it is Ordered That the Deputies from the severall Plantations within this Jurisdiction . . . rate two Houses in *New-Haven*, which shal be as patterns for the other Plantations to rate by.<sup>24</sup>

This law is important not only because direct valuation of property is used today, but also because this law firmly establishes that the purpose of listings was taxation on value.

Property taxes in general are taxes on value in stock, or taxes on earnings potentials. As a surrogate of value, Georgia taxed the capital stock of banks in 1805;<sup>25</sup> and in 1823, New York provided that "all incorporated companies receiving a regular income from the employment of their capital" should be liable for the general property tax.<sup>26</sup> The taxation of corporations became important as corporate taxes evolved into gross receipts licenses and net income excises.

### *Licenses*

Licenses are important in the development of tax concepts because (1) when a graduated license is used, it becomes a surrogate of value in trade, (2) liquor licenses evolved into excises which established the transaction based tax, and (3) licenses developed into gross receipts taxes levied upon corporations. By 1647 Providence had given authority to towns to license taverns and collect fines for disturbances resulting from them.<sup>27</sup> By 1662 towns were given power to grant variable rate licenses:

. . . Power of each respective Town Council, to Grant Licences in their Respective Towns, for the keeping of Taverns, Ale-houfes, and Victualling-houfes; they Granting no Licence under *Forty Shillings*, nor none above *Ten Pounds*.<sup>28</sup>

By 1672 Connecticut not only licensed taverns but also required "that no Corn or Malt whatever shall be difstilled into liquors in any

Plantation or Peculiar in this Colony without a particular license for the same. . . .<sup>29</sup> The licensing of liquor is important because liquor has been the subject of licenses and taxes from earliest colonial times to the present and has taken several forms, as will be seen.

Besides liquor, Pennsylvania, in 1727, instituted a graduated license for regulating peddlers (explicit objective in preamble). The license was fifteen shillings for those on foot and twenty-five shillings by horse.<sup>30</sup> In 1819 and 1827 Maryland instituted graduated licenses on brokers, auctioneers, and traders based upon the type of ware they sold.<sup>31</sup> In 1715 and 1741 North Carolina licensed "ordinary keepers and Tippling houses" and "Keepers Ordinaries and Houses of Entertainment."<sup>32</sup> In 1743 this colony taxed attorney's fees by levying a thirty shilling fee on each suit or petition filed.<sup>33</sup> As indicated earlier, systems of licenses and fees were sources of considerable revenue in the southern colonies and later southern states.

Why are the developments of colonial taxes (except excises, discussed later) so important to the development of more recent types of expenditure taxes? In these earlier taxes lie the embryos of the taxation concepts of value, transaction, net product, and taxation levied upon expenditure. The major developments in the post colonial period are the development of universality in taxation policy and the shift from taxes on value in stock to value in trade.

### *Development of Specific Excises*

For purposes of this paper an excise is any tax on either the import, export, or sale of a specific category of good. A general excise or sales tax is an excise that is widespread or universal in that it taxes types of transactions in general rather than specified categories. Two excises, tobacco and liquor, played important roles in colonial systems.

#### *Tobacco*

It is known that tobacco export taxes in Virginia extend as far back as 1639 when the king paid the governor's salary from tobacco export duties.<sup>34</sup> In 1654 an act granted free export of tobacco,<sup>35</sup> but by 1657 the Assembly levied a tax of a shilling per hogshead upon all tobacco, to be accounted for by masters of vessels, to pay the Governor's salary (now a direct responsibility of the Colony).<sup>36</sup> The following year a ten shilling prohibitive tax, aimed at the Dutch, was

put on tobacco not exported to England.<sup>37</sup> Besides payment of officers' salaries and protection of maritime interests, the tax was intended to introduce money (first tax not levied in tobacco) and promote diversification of products.<sup>38</sup> The tobacco tax was not only important as a value tax, but also because of its transaction base. In 1661, the Burgesses gave a clear statement of their belief in the superiority of a transaction tax over the poll tax (this direct tax had evolved into a property tax after 1645—refer to the poll tax section) by stating that "the prudence of all nations hath provided for the defraying the publique necessary charges rather by laying an imposition upon the adventures for the staple comoditie than by taxing the persons of the inhabitants."<sup>39</sup>

Indirect taxation is an extremely important concept in differentiating between the concepts underlying value-added and income taxes. The income tax is a value and transaction based, multi-step net product tax but it is a direct tax upon the generator of that product. The value-added tax has the same characteristics except it is an indirect tax. So, the 1661 Burgesses' statement is significant as a turning point in the development of indirect taxation for revenue purposes (as opposed to regulatory) in America. Indirect taxation was not, however, without its opponents. In 1677, Valentine Byrd, a former Collector of Customs of North Carolina, and John Culpepper of South Carolina led a rebellion in protest of a provision of the Second Navigation Act of 1673, which placed a one penny per pound duty on intercolonial shipments of tobacco.<sup>40</sup> After the adoption of the constitution, states were forbidden from imposing export duties, so all state imposed export taxes ceased in 1789.<sup>41</sup>

### *Liquor*

Under Dutch control, a tavernkeeper's excise on liquor was levied in Delaware in 1655. The tax was levied per volume and depended on the type and grade of liquor. A matching levy was imposed on the customer if it were consumed on the premises.<sup>42</sup> This tax was the first customer imposed "sales" type tax in the colonies. It is also interesting that the Dutch used three surrogates (volume, type, and grade) to approximate ad valorem taxation. Underlying this tax were the concepts of value, transaction basis, and indirect taxation levied upon expenditure. In 1669, while temporarily in British control, an excise of one guilder per "can" was levied on distilleries in Delaware.<sup>43</sup> By 1656, the Confederation of Massachusetts, Plymouth, Connecticut and New Haven imposed a uniform import duty on all liquor and wines, (except those from England or a member of the

Confederation). This law also levied the same tax on domestic liquor. The liquor levy was eight pence to the gallon and the wine levy was graduated by volume and brand.<sup>44</sup>

One of the first taxes under the Constitution was the whiskey excise tax of 1791, with rates varying from 7¢ to 18¢ per gallon at the still head.<sup>45</sup> The levy of this tax at the still head, rather than when sold, was one of the leading factors in the “whiskey rebellion.” “Old Monogahela rye” (named after the river in western Pennsylvania) had become an essential item of barter in that area. Taxing it at the still head reduced its usefulness as a medium of exchange because in a barter transaction, the tax payable in currency would become due before currency was realized by retail sale.<sup>46</sup> These liquor excise provisions (still followed today) differentiate this type of tax from sales and value-added taxes. These provisions, though transaction based, are not upon expenditure but rather upon production.

### *Others*

Besides liquor and tobacco excises, colonial taxation included import taxes on newcomers by 1633<sup>47</sup> servants and negroes by 1699,<sup>48</sup> and export duties on skins<sup>49</sup> and hides<sup>50</sup> by 1682 and 1691.

### *Development of Excises, Income Taxes, and Licenses Based on Gross Receipts*

Taxation based on gross receipts is important in the development and integration of the concepts under study. These taxes are value and transaction based, multi-step direct (or indirect) taxes on gross product (since they are not net of the tax on inputs). Their importance can better be appreciated by comparing them to sales type taxes. Retail sales type taxes are value and transaction based, single-step indirect taxes on net product, assuming no tax is paid on capital goods. The value-added taxes are a hybrid of the two.

The first of the gross receipts taxes grew out of the practice of issuing graduated licenses. A provision of the Maryland act of 1827 that granted the auctioneer's license fee also required a tax of one percent on the value of everything sold at auction in Baltimore.<sup>51</sup> In 1901, Pennsylvania instituted a license fee of three percent of annual receipts on auctioneers and brokers.<sup>52</sup>

The first corporate gross receipts tax was levied, by New York, in 1824 on foreign fire insurance companies at a rate of ten percent of all premiums on domestic property.<sup>53</sup> Many other states followed

suit and extended the tax to include domestic companies until all but a few Western states had such taxes.

In 1882, Vermont instituted a graduated gross receipts tax on railroads; however, it was declared to be unconstitutionally interfering with interstate commerce.<sup>54</sup> In 1866, Pennsylvania imposed on every railroad, canal and transportation company a tax equal to three-fourths of one percent of the gross receipts from business conducted wholly within the state.<sup>55</sup> In 1889, the rate was changed, and its scope was increased. All transportation and transmission companies of every description were subject to the tax on gross receipts from passenger and freight traffic wholly within that state, and from telegraph, telephone, and express business wholly within the state, and included gross receipts from business of electric utility companies.<sup>56</sup> This tax was declared to be a franchise tax and to be constitutional since it taxed only intrastate commerce.<sup>57</sup> In *Commissioner vs. U.S. Express Co.* the legality of the double taxation feature of a gross receipts tax was challenged but upheld. The court held that the tax upon the whole of the gross receipts of an express company is not illegal double taxation, although the amounts paid by the express company to railroad companies are included in the gross receipts of railroad companies and taxed as such.<sup>58</sup>

The ruling itself is not so important as the challenge. The gross receipts tax is a gross product tax (or turnover tax) because a tax is levied on the same good or service each time it enters a sales transaction of an included industry. So if the same good passes through two included companies' sales transactions, the good is taxed twice. The net income tax, valued-added tax, and retail sales tax (excluding capital goods) are taxes designed to correct this turnover multiple taxation. The concept of net product was important in the development of these taxes as the dominant fiscal policies since that time.

The other type of gross receipts tax is the gross income type tax. The first income tax in the states was levied, in 1777 by Maryland, at a rate of 5s. per £ 100 on all wages, salaries, annuities, and profits of trade.<sup>59</sup> This tax approximated a multi-step net product tax since the sum of the value added to a product from extraction to consumption is the sum of the cost of land, labor expended plus profits (materials are summations of prior labor and profit). This tax, though advanced for its day, did not gain acceptance in the other states until the consideration of Civil War taxes, by both sides.

The first national (Union) income tax was passed in 1861. The rates were graduated and levied on gross income. The reason for

taxing gross rather than net income was not that the members of Congress were unfamiliar with the concept of net product, but rather, they were afraid to say "net" income for fear that too many personal expenses would be deducted.<sup>60</sup> The 1864 version of the law allowed deduction of business expenses, interest, taxes, and rent (even home rent) which made it "net."<sup>61</sup> The Civil War income tax is generally considered to be a direct tax; certain provisions, however, made it indirect. For example, steamboats, canal companies, toll roads, ferries, and bridges were to explicitly add the tax to the price they charged, making it resemble a sales tax.<sup>62</sup> The income taxes of 1894 (declared unconstitutional)<sup>63</sup> and 1913 are not of importance here because they are results, rather than developments, of concepts established in the Civil War period.

Another tax which is commonly overlooked, but which helped spread these concepts to the other half of the United States is the Confederate income tax of 1863. It was levied in three parts: a gross salaries tax; a business net income tax allowing deduction of prime costs; and a farm tax of ten percent of production payable in kind.<sup>64</sup>

The corporate excise section of the Tariff Act of 1909 was measured by corporate net income, allowing the deduction of all ordinary and necessary operating expenses from gross income.<sup>65</sup> This tax was the result of adding the concept of net product to the licenses and excises already discussed in this section. In reviewing this section, one sees that all of the concepts have been integrated except that the taxes are basically direct taxes rather than indirect.

### *Development of General Excises and Sales Taxes*

As mentioned earlier, general excises and sales taxes are general taxes on transactions without respect to specific categories. Though the first authorized tax of this nature was in 1606, widespread acceptance of this taxing method did not evolve until the 20th century.

The Virginia Company charter of 1606 granted the right of imposing import duties upon goods entering Virginia. Though these duties were not universal, they appear to have been widespread in application. The letters-patent conferred authority:

... to take and surprise by all ways and means whatsoever all and every person or persons which shall be found trafficking into any harbour or place within the limits of the said colony until they, being of any realms under our obedience shall pay two and a half upon every hundred of anything so by them trafficked; and being strangers, until

they pay five upon every hundred of such wares and merchandises; . . . .<sup>66</sup>

This tax is a transaction tax on value; though, it appears to be paid in kind (any monetary revenue resulting only upon the sale of the government's 1/40 or 1/20 share of merchandise).

The "Old Subsidy" Act of 1660 levied by Parliament had as its objective the imposition of a five percent ad valorem duty on all imports and exports. In practice, however, it became a specific excise since a "Book of Rates" was used to apply the tax to physical measures, resulting in a hit-or-miss correspondence between tax and value.<sup>67</sup> This tax is significant because it attempted to tax value and was intended to be a general (universal) tax.

The Assembly of Delaware, in 1683, imposed a one percent ad valorem on all imports except liquor, which had special rates.<sup>68</sup> The First Congress of the United States passed a similar tax package in 1789. This tax called for a basic five percent ad valorem tax on all imports with many specific, higher, duties.<sup>69</sup> These taxes provided almost all of the national revenue until the Civil War Period.

Various authors (see sales taxation listings in bibliography) have attributed the genus of retail sales taxation as either 1921 in West Virginia or 1932 in Mississippi. However, this author would prefer to trace retail sales taxation to the 1899 Pennsylvania mercantile license law. Though that law provided for wholesalers and other dealers, it specifically stated that:

Each retailer of or retail dealer in goods, wares and merchandise shall pay an annual mercantile license of two dollars, and all persons so engaged shall pay one mill additional on each dollar of the whole volume, gross, of business transacted annually.<sup>70</sup>

This claim can be disputed, first, because it was a gross receipts license, and second, because it was a direct levy on the dealer rather than an indirect levy on the purchaser.

The taxes of West Virginia (1921), Georgia (1929), and Mississippi (1930) can be rejected as sales taxes on the same grounds. These taxes were basically business occupation levies. They were gross receipt turnover (multi-step) taxes.<sup>71</sup> In 1932, Mississippi converted to a retail sales tax by eliminating the multi-step feature.<sup>72</sup> Within five years, 31 states adopted sales taxes.<sup>73</sup>

The important feature of retail sales taxation is that it taxes only consumed goods. By not taxing capital goods, the double taxa-

tion of a gross receipts tax is avoided. If one taxes the purchase of capital goods, they are taxed again when they become part of the cost of consumed goods, through the production and distribution process.

### *Value-added Taxes*

The value-added tax was first proposed by a German industrial executive in 1918.<sup>74</sup> In 1940, Senator O'Mahoney proposed a United States federal value-added tax.<sup>75</sup> Michigan adopted a modified version of this tax in 1953, which it retained until 1967.<sup>76</sup> Today all Member States of the European Economic Community use a value-added tax. The question remaining is: will the United States adopt a value-added tax?

### *Conclusion*

Whether a value-added tax is adopted is a matter for the future. However, the possibility is strengthened by past tax policy. The concepts underlying the value-added tax (value and transaction based, multi-step taxation of net product, and indirect taxation of expenditure) were developed, though sometimes in isolation, in Colonial America. The major contributions since that time have been the sophistication and integration of these concepts. Two types of tax since colonial times have had all but two of these concepts. Two types have integrated all but one of these concepts, though the excluded concept was different for each. Gross receipts taxes were value and transaction based, multi-step taxation of gross products, which were only occasionally levied as indirect expenditure taxes. The missing features of these taxes were that they included gross rather than net product as their base and usually were direct taxes on the generators of income. (Review Table 1.) Specific excise taxes were single-step and taxed gross, not net to product. The second category includes net income taxes. These were value and transaction based, multi-step net product taxes, but were direct taxes. The last type is the retail sales tax. It is a value and transaction based, net product, indirect tax on expenditure, but is a one-step rather than multi-step tax.

Several have proposed value and transaction based, multi-step, net product, indirect taxation of expenditures. Such a tax is the value-added tax.

Whether such a tax becomes a reality, on a national basis, depends on whether the federal legislature is willing to combine the



concepts which have been thoroughly tested in the American political and economic system. This writer thinks such adoption is forthcoming since each of these concepts has stood the test of time, but no present tax combines all of these historically attractive concepts. It may be time for the ultimate integration of these concepts into a value-added tax.

#### FOOTNOTES

<sup>1</sup>See Blakey and Blakey. Seligman, *Essays in Taxation*. Seligman, *The Income Tax*.

<sup>2</sup>Cushing, *Laws of New Haven and Connecticut*, p. 5.

<sup>3</sup>Forsythe, p. 10. .

<sup>4</sup>Parker, p. 17.

<sup>5</sup>Parker, p. 19.

<sup>6</sup>Parker, p. 22.

<sup>7</sup>Forsythe, pp. 10-11.

<sup>8</sup>Ripley, pp. 46-47.

<sup>9</sup>Daugherty, p. 44.

<sup>10</sup>Daugherty, p. 46.

<sup>11</sup>Seligman, *The Income Tax*, p. 487.

<sup>12</sup>Ripley, p. 80.

<sup>13</sup>Cushing, *Laws of Rhode Island and Providence*, p. 187.

<sup>14</sup>Daugherty, pp. 42-43.

<sup>15</sup>Daugherty, p. 43.

<sup>16</sup>Anderson, p. 40.

<sup>17</sup>Ripley, p. 80.

<sup>18</sup>Ripley, p. 18.

<sup>19</sup>Ripley, p. 25.

<sup>20</sup>Seligman, *The Income Tax*, p. 368.

<sup>21</sup>Seligman, *The Income Tax*, p. 368.

<sup>22</sup>Seligman, *The Income Tax*, p. 374.

<sup>23</sup>Seligman, *The Income Tax*, p. 375.

<sup>24</sup>Cushing, *Laws of New Haven and Connecticut*, p. 23.

<sup>25</sup>Seligman, *Essays in Taxation*, p. 151.

<sup>26</sup>Seligman, *Essays in Taxation*, p. 146.

<sup>27</sup>Cushing, *Laws of Rhode Island and Providence*, pp. 39-40.

<sup>28</sup>Cushing, *Laws of Rhode Island and Providence*, p. 147.

<sup>29</sup>Cushing, *Laws of New Haven and Connecticut*, p. 94.

<sup>30</sup>Daugherty, p. 43.

<sup>31</sup>Maryland Tax Commission, p. ci.

<sup>32</sup>Parker, p. 129.

<sup>33</sup>Parker, p. 128.

<sup>34</sup>Ripley, p. 23.

<sup>35</sup>Ripley, p. 57.

<sup>36</sup>Ripley, p. 58.

<sup>37</sup>Ripley, p. 58.

<sup>38</sup>Ripley, p. 57.

<sup>39</sup>Ripley, p. 28.

<sup>40</sup>Parker, pp. 75-82.

<sup>41</sup>Ripley, p. 61.

- <sup>42</sup>Daugherty, p. 10.
- <sup>43</sup>Daugherty, p. 13.
- <sup>44</sup>Cushing, *Laws of New Haven and Connecticut*, pp. 33-34.
- <sup>45</sup>Forsythe, p. 41.
- <sup>46</sup>Forsythe, p. 41.
- <sup>47</sup>Ripley, p. 73.
- <sup>48</sup>Ripley, p. 74.
- <sup>49</sup>Daugherty, p. 23.
- <sup>50</sup>Ripley, pp. 78-79.
- <sup>51</sup>Maryland Tax Commission, p. cllii.
- <sup>52</sup>Pennsylvania Auditor General's Office, p. 94.
- <sup>53</sup>Seligman, *Essays in Taxation*, p. 161.
- <sup>54</sup>Seligman, *Essays in Taxation*, p. 172.
- <sup>55</sup>Pennsylvania Auditor General's Office, p. 77.
- <sup>56</sup>Pennsylvania Auditor General's Office, p. 77.
- <sup>57</sup>Pennsylvania Auditor General's Office, p. 77.
- <sup>58</sup>Pennsylvania Auditor General's Office, p. 80.
- <sup>59</sup>Maryland Tax Commission, p. cllii.
- <sup>60</sup>Blakey, pp. 4-5.
- <sup>61</sup>Blakey, p. 5.
- <sup>62</sup>Seligman, *The Income Tax*, p. 445.
- <sup>63</sup>Seligman, *Essays in Taxation*, p. 693.
- <sup>64</sup>Seligman, *The Income Tax*, pp. 485-487.
- <sup>65</sup>Blakey, pp. 52-53.
- <sup>66</sup>Ripley, pp. 67-68.
- <sup>67</sup>Parker, p. 21.
- <sup>68</sup>Daugherty, p. 23.
- <sup>69</sup>Forsythe, p. 63.
- <sup>70</sup>Pennsylvania Auditor General's Office, p. 89.
- <sup>71</sup>Tax Foundation, Inc., *State and Local Sales Taxes*, p. 8.
- <sup>72</sup>Due, p. 2.
- <sup>73</sup>Tax Foundation, Inc., *Retail Sales and Individual Income Taxes in State Tax Structure*, p. 8.
- <sup>74</sup>Pechman, p. 193.
- <sup>75</sup>Lindholm, p. 1178.
- <sup>76</sup>Pechman, p. 193.

## BIBLIOGRAPHY

- Anderson, William H. *Taxation and The American Economy*. New York: Prentice-Hall, Inc., 1952.
- Blakey, Roy G. and Blakey, Gladys C. *The Federal Income Tax*. New York: Longmans, Green and Co., 1940.
- Cushing, John D., Ed. *The Earliest Acts and Laws of the Colony of Rhode Island and Providence Plantations 1647-1719*. Wilmington, Del.: Michael Glazier, Inc., 1977.
- 
- \_\_\_\_\_, Ed. *The Earliest Laws of the New Haven and Connecticut Colonies 1639-1673*. Wilmington, Del.: Michael Glazier, Inc., 1977.
- 
- \_\_\_\_\_, Ed. *The Laws of the Pilgrims*. Wilmington, Del.: Michael Glazier, Inc., 1977.
- Daugherty, M. M. *Early Colonial Taxation In Delaware*. Wilmington, Del.: Delaware Tercentenary Commission, 1938.

- Due, John F. *State and Local Sales Taxation*. Chicago: Public Administration Services, 1971.
- Forsythe, Dall W. *Taxation and Political Change in the Young Nation 1781-1833*. New York: Columbia University Press, 1977.
- Lindholm, Richard W. "The Value Added Tax: A Short Review of the Literature." *Journal of Economic Literature*, Vol. 8 (December 1970), pp. 1178-1189.
- Maryland Tax Commission. *Report of The Maryland Tax Commission January, 1888*. Baltimore: King Brothers, 1888.
- Parker, Coralie. *The History of Taxation In North Carolina During The Colonial Period 1663-1776*. New York: Columbia University Press, 1928.
- Pechman, Joseph A. *Federal Tax Policy*. Washington: The Brookings Institute, 1977.
- Pennsylvania Auditor General's Office. *Compendium and Brief History of Taxation in Pennsylvania*. Harrisburg, Pa.: Harrisburg Publishing Co., 1906.
- Ripley, William Z. *The Financial History of Virginia 1609-1776*. New York: Columbia College, 1893.
- Seligman, Edwin R. A. *Essays in Taxation*. New York: Augustus M. Kelly, 1931.
- \_\_\_\_\_. *The Income Tax*. New York: Augustus M. Kelley, 1914.
- Tax Foundation, Inc. *Retail Sales and Individual Income Taxes in State Tax Structures*. New York: Tax Foundation, Inc., 1962.
- \_\_\_\_\_. *State and Local Sales Taxes*. New York: Tax Foundation, Inc., 1970.
- \_\_\_\_\_. *Recent Trends In Major State Taxes 1941-47*. New York: The Tax Foundation, 1948.
- Wood, Fredrick A. *History of Taxation in Vermont*. New York: Columbia College, 1894.